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Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-10 ISO-00 SP-02 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 DODE-00 PA-02 PRS-01 SAJ-01

AGR-10 /141 W
---------- 075840
R 311652Z DEC 75
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7759
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A
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SUBJECT: ECONOMIC DEVELOPMENTS FOR THE PERIOD DECEMBER

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20 THROUGH 31, 1975.

1. IN A FRONT PAGE NEW YEAR'S MESSAGE PUBLISHED IN THE FINANCIAL TIMES, THE CHANCELLOR OF THE EXCHEQUER CONFIRMED THAT THE RECESSION HAS BOTTOMED OUT AND CALLED ON INDUSTRY, THE FINANCIAL COMMUNITY AND ORGANIZED LABOR TO MAKE 1976 THE YEAR THAT THE DECLINE IN BRITAIN'S RELATIVE INDUSTRIAL POSITION IS REVERSED.

SPELLING OUT THE CONSTRAINTS WITHIN WHICH POLICY HAD TO BE FORMULATED, MR. HEALEY SAID THAT THE U.K. MUST AIM AT ACHIEVING ALANCE ON ITS CURRENT ACCOUNT AT FULL EMPLOYMENT WITHIN THE NEXT THREE YEARS OR SO. AT THE SAME TIME THE LAG BETWEEN THE RECOVERY IN OUTPUT AND FALLING UNEMPLOYMENT HAD TO BE SHORTENED WITHOUT AN INFLATIONARY SURGE IN IMPORTS. SUBJECT TO THESE CONSTRAINTS, HE CITED TWO WAYS OF REACHING THE GOAL OF A COMPETITIVE, FULLY EMPLOYED NON-INFLATIONARY BRITISH ECONOMY: INCREASED EXPORTS AND IMPORT SUBSTITUTION; THE CREATION OF ADDED MANUFACTURING CAPACITY THROUGH INCREASED TRAINING AND INVESTMENT THE FALL IN THE EFFECTIVE VALUE OF STERLING TOGETHER WITH IMPROVED FACILITIES FOR EXPORT FINANCE SHOULD MAKE PROGRESS POSSIBLE ON THE FIRST. HOWEVER, MUCH HAS TO BE DONE TO IMPROVE THE QUALITY, AVAILABILITY, AND MARKETING OF BRITISH EXPORTS. WITH REGARD TO THE SECOND ELEMENT, BRITAIN'S INDUSTRIAL BASE HAS TO BE IMPROVED BOTH IN STRUCTURE AND PERFORMANCE WITHOUT THE LOSS OF CONFIDENCE EITHER OF WORKERS OR EMPLOYERS. IN THAT CONNECTION, THE CHANCELLOR STRONGLY URGES INDUSTRY TO ABANDON ITS PRACTICE OF INVESTING ONLY AT THE TOP OF THE CYCLE. THE TIME TO INVEST IS NOW. FINANCING IS AVAILABLE, THE EQUITY MARKETS HAVE ALREADY FURNISHED MUCH NEW MONEY IN. TO INDUSTRY ALL VARIOUS GOVERNMENTAL SCHEMES TO FOSTER INVESTMENT ARE IN PLACE. THE CHANCELLOR RENEWED HIS PLEDGE TO PREVENT "ANY SIGNIFICANT INCREASE IN PUBLIC EX PENDITURE AFTER THIS YEAR AND TO ENSURE THAT THE PUBLIC SECTOR BORROWING REQUIREMENT FALLS STEADILY AS A PROPORTION OF NATIONAL INCOME."

2. MONEY SUPPLY CONTRACTS IN NOVEMBER. BOTH M1, THE NARROWLY DEFINED MONEY SUPPLY AND M3, THE MORE BROADLY
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BASED MEASURE CONTRACTED IN THE MONTH TO NOVEMBER 19, THE FIRST SUCH DECLINE THIS YEAR. M1 STOOD AT 15.9 BILLION POUNDS IN NOVEMBER, DOWN 0.2 BILLION POUNDS FROM FROM THE OCTOBER FIGURE. M3, AT 38.7 BILLION, WAS 0.3 BILLION POUNDS BELOW THE OCTOBER FIGURE. OVER THE THREE MONTHS THROUGH NOVEMBER, M1 ROSE AT AN ANNUAL RATE OF 3.9 PERCENT. THE CORRESPONDING FIGURE FOR M3 WAS 3.6 PER CENT. FOR THE 12 MONTHS THROUGH NOVEMBER, M1 ROSE BY

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15.5 PERCENT WHILE M3 WAS UP BY 8.5 PERCENT. BOTH OF THESE ARE WELL BELOW THE RATE OF PRICE INCREASE AND REFLECT A CONTRACTION IN THE REAL MONEY SUPPLY. THE SHARPLY LOWER NOVEMBER FIGURES HAVE RAISED SOME CONCERN THAT MONETARY POLICY, WHILE NECESSARILY RESTRICTIVE IN THE FACE OF HIGH INFLATION, MAY NOW BE SO TIGHT THAT THE RATE OF GROWTH IN 1976 MAY BE HAMPERED.

3. INVENTORIES AND FIXED INVESTMENT. REVISED THIRD QUARTER FIGURES SHOW THAT INVENTORIES DECLINED BY 210 MILLION POUNDS IN 1970 PRICES INSTEAD OF THE 240 MILLION POUNDS PROVISIONALLY REPORTED. NONETHELESS, THIS IS THE LARGEST QUARTERLY DECLINE ON RECORD. REVISED FIGURES FOR CAPITAL SPENDING SHOW THAT MANUFACTURING INVESTMENT FOR THE FIRST NINE MONTHS OF 1975 WAS 10 PERCENT BELOW THE FIGURE FOR THE SAME PERIOD IN 1974. THE SHARPEST DECLINE

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CIAE-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 DODE-00 PA-02 PRS-01 SAJ-01

AGR-10 /141 W
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R 311652Z DEC 75
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7760
INFO AMEMBASSY BERN
AMEMBASSY BONN
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IN SUCH INVESTMENT WAS IN TEXTILES AND CLOTHING DOWN NEARLY ONE-THIRD FROM 1974. HOWEVER, PRODUCERS OF CHEMI-
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CALS, METALS, AND ENERGY REGISTERED GAINS.

4. UNEMPLOYMENT. THE DECEMBER UNEMPLOYMENT FIGURES COMPLETED A YEAR IN WHICH NEARLY 500,000 WORKERS JOINED THE ROLLS OF THE JOBLESS. IN DECEMBER THE NUMBER OF UN-EMPLOYED (S.A.) STOOD AT 1.16 MILLION UP 43,000 FROM THE NOVEMBER TOTAL OF 1.12 MILLION. AT 5.1 PERCENT, THE UN-EMPLOYMENT RATE WAS 0.2 PERCENTAGE POINTS ABOVE THE NOVEMBER FIGURE.

5. EXCHANGE PATE AND GOLD

	12/19	12/30	CHANGE
EXCHANGE RATE	$2.0220	$2.0240	UP $0.0020
EFFECTIVE DEPRECIATION (PERCENT)	30.1	30.0	DOWN 0.1
GOLD	$138.75	$141.00	UP $2.25

6. FORWARD DISCOUNT ON STERLING:

	12/19	12/30	CHANGE
1 MONTH	0.90	1.00	UP 0.10
3 MONTHS	2.50	2.55	UP 0.05
6 MONTHS	4.50	4.60	UP 0.10

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

	12/19	12/30	CHANGE
1 MONTH	6	5-1/4	DOWN 3/4
3 MONTHS	6-1/2	5-7/8	DOWN 5/8
6 MONTHS	7-3/8	6-3/4	DOWN 5/8

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8. LOCAL AUTHORITY DEPOSIT RATAS:

	12/19	12/30	CHANGE
1 MONTH	11	11-1/16	UP 1/16
3 MONTHS	11-1/8	11-1/16	DOWN 1/16
6 MONTHS	11-1/4	11-1/4	UNCHANGED

9. THE MINIMUM LENDING RATE WAS REDUCED 1/4 PERCENT
TO 11-1/4 PERCENT ON WEDNESDAY, DECEMBER 24.

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